

453 – COMMUNITY SUPPORTIVE HOUSING (CSH) BUDGET GUIDE POLICY

This policy provides guidance regarding the completion of the annual budget process for CSH (Community Supportive Housing) developments that are required to submit an annual budget to the Authority. The following topics will be covered:

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Purpose of Budgeting

Each year, developments receiving MSHDA or American Recovery and Reinvestment Act (ARRA)-financing must submit a budget of anticipated income and expenses for the upcoming fiscal year. This provides a measurement against which Monthly Income and Expense (MIE) statements can be compared to help judge the ongoing financial health of each property.

This process involves:

- Anticipating income based on the updated rent schedule and any potential increases or decreases in rents.
- Projecting the upcoming year's income and expenses based on the previous year's financial activity and anticipated changes in operations at the development.
- Explaining significant variances between the current budgeted number and the previous year's financial activity.

Budget Submission Timeline

The annual budgeting process follows a strict schedule in order to meet all reporting requirements and statutes. A detailed timeline identifying the timeframe required for achieving the appropriate budget calculations and submissions follows:

Aug 1st – Begin collecting utility sampling data.

Nov 1st – Budget packages are due to MSHDA.

Nov 1st to Nov 30th – Assigned AM reviews and finalizes all development budgets, if the budget submission is complete.

Prior to Dec 1st – MSHDA sends a copy of the approved budget to the management agent.

Dec 31st – Management Agreements and Management Agreement Addendums are due.

Jan 1st – The management agent implements the approved budget.

New Developments: Developments must submit an operating budget for the next fiscal year after the mortgage cut-off date occurred. If the cut-off date occurs after September in a year, a feasibility budget could be used for the first year of operation, but MSHDA recommends quickly completing the Asset Management budget process to improve accuracy in reconciling with MIE submissions. For example, if mortgage cutoff occurred in August **2012**, a **2013** fiscal year budget must be submitted. **Note:** Preserved developments are still required to submit budget packages to MSHDA.

30 days prior to implementing a rent increase – The management agent MUST notify the residents of a rent increase consistent with the resident lease terms.

Where to Submit Budget Documentation

The following two items must be completed by the designated due dates in order to meet the submission deadline.

1. Submit an electronic copy of the completed excel workbook (MSHDA Mgmt. 453A, Identity of Interest disclosure forms, and utility forms (if applicable)) to the MSHDAAssetmgt@michigan.gov mailbox.
 - The e-mail must have a subject line with [Budget Year, Development Name, MSHDA #]. For example, Budget 2013, Accurate Apartments, #999.
 - The file name must be [MSHDA #.xls] and the file must be saved in an Office 2003 format. Office 2007 and 2010 users will have to select the proper format when saving.
2. Submit hard copies of all the required documents listed in the ‘Budget Submission Requirements’ section below to:

Ms. Michelle Locher
Michigan State Housing Development Authority

735 E. Michigan Ave., 3rd Floor
P.O. Box 30044
Lansing, Mi 48909

Budget Submission Requirements

In addition to submitting a completed electronic copy of the CSH Budget Form 453A, developments must submit a budget document package with the following documents.

1. **Signed copy of the MSHDA Mgmt. 453A** – The CSH Budget form (revised 8/2012) with the signature page on top. The owner or a management company representative must sign the budget form to validate the numbers.
2. **Detailed notes of the 453A line items** – Notes describing the anticipated income and expenses being budgeted for each line item on the 453A form is encouraged. Detailed notes should include mathematical computations and supportive documents to assist in explaining the full financial picture to the assigned Asset Manager, which helps create a smooth budgeting process. For a description of every line item on the 453A form refer to the “Instructions for Completing the 453A Tab” section below.

At a minimum, budget notes must be included for each line item with:

- A \$2,000 **and** 20% variance exists between the budgeted amount and the current 12-month expenses;
 - A physical needs item expensed that will be funded from an escrow account; and
 - An Identity of Interest expenditure.
 - The “Variance Requires Detail” column of the 453A form flagged as “Yes”.
 - A “**Budget Notes**” reference in the detailed explanation in “Instructions for Completing the 453A Tab” section below.
3. **Owner’s Utility Certification to MSHDA** – Use the MSHDA Mgmt. 451C2 form to certify utilities sampled.
 4. **Utility Allowance Calculation – Summary** (MSHDA Mgmt. 451B). Refer to the 451 - Utility Sampling and Rent Schedule policy for further details.
 5. **Verification of PHA Utility rates** – *Required for all developments with Project Based Vouchers (PBV)*. PBVs use the administering Public Housing Agency’s (PHA) published utility rate for each PBV designated unit. If the PBV is administered by a local PHA, then submit verification of the PHA’s published utility rates.
 6. **Proposed Rent Schedule** – Proposed Rent Schedule (MSHDA Mgmt. 450D1 through 450D3). Refer to the 451 - Utility Sampling and Rent Schedule policy for

more information about the completion of sampling and submission requirements. When determining the new rent amounts, consider the competing rents in the market area. Rents should not be excessively high in relation to comparable housing alternatives or excessively low. They should ensure the continued stable operation of the development.

7. **Identity of Interest (IoI) Disclosure** – Provide a complete list of all Identity of Interest vendors with the budget using the MSHDA Mgmt. 450B form for each vendor. This information is included in the budget template; refer to “Instructions for Completing the Identity of Interest Tab” section of this policy for detailed instructions on completing the “IoI” tab. **All identity of interest vendors must receive (re)approval in order to begin to contract or continue to contract with each development for goods and/or services in 2013, unless a multiple year contract was approved by MSHDA. Refer to the approved 2012 IoI Disclosure for the contract end dates.**

If during the budget year, an IoI Disclosure (MSHDA Mgmt. 450B) is required, reopen the budget template and make the necessary corrections to update the identity of interest template or create a new form. If one of the following changes occurs in the previous identity of interest disclosure and approval, re-approval of the vendor is required:

- A change in Identity of Interest vendor or management agent, **or**
 - An increase in the amount being charged by a previously submitted Identity of Interest vendor disclosure form. New bids must be submitted if the increased amount exceeds 10% of the previously approved Identity of Interest Disclosure.
8. **Current Service Contracts** – If there is a \$2,000 and 20% variance between the proposed budget amount and the previous 12-month expenses (July to June), provide copies of all current service contracts for the development indicating amounts and note the contract in the budget details.
 9. **Management Agreement (MSHDA Mgmt. 401 – MSHDA-Financed)** – Complete and sign three copies of the Management Agreement for approval by MSHDA. After MSHDA approval, two copies will be returned for the Owner and Management Agent’s records.

The Management Agreements must be submitted to the Authority by December 31st of the current year. The Development’s budget must include the correct amount of management and premium management fees listed in the Agreement. When possible, submit the Management Agreement with the budget packages.

10. **Pension Plan Evidence** – If your management company is not on the List of Management Agents with MSHDA-approved Pension Plans (MSHDA Mgmt. 450 –

Attachment 1), provide evidence of an Authority approved pension plans for on-site staff.

11. **Market Analysis** – Provide a market analysis, if the year-to-date vacancy at the time of budget preparation exceeds 5% - or - there is a proposed rent increase, which exceeds 5% of the current rents.
12. **Letter from owner** - If there is a budget deficit; the owner must describe a plan to fund the budget deficit. **If the owner intends to fund a deficit budget by reducing the management fees, the full amount of the management fees should be budgeted in Line Item 4a and the deficit amount should be budgeted in Line Item F4 - Related Party/Affiliate Contributions/Advances with an appropriate explanation in the budget detailed notes.**

Instructions for Completing the MSHDA Budget Template

The following instructions offer a guide to the management agents and owners in preparing the annual Operating Budgets on the MSHDA Budget template. The MSHDA Budget template is posted on the MSHDA website at http://www.michigan.gov/mshda/0,4641,7-141-8002_47708-177125--,00.html. The CSH budget template includes the following tabs for all developments:

- CSV – CSH
- 453,
- Summary,
- Electric – Family,
- Electric – Elderly,
- Gas – Family,
- Gas – Elderly,
- MSHDA Cert
- Rent Schedule – The applicable rent schedule will be displayed depending on development selected, and,
- I of I.

Begin completing the budget template for each of developments managed, by entering the:

1. Specific development in cell F1 of the **453A tab**,
2. Budget line items on the **453A** tab to generate an acceptable budget for the development.
3. Unit rent information to generate the Gross Rent Potential amounts on the “**...Rent Sch**” tab, if applicable.

*For developments with units **NOT assigned Project-Based Vouchers** (PBV units use the administering Public Housing Agency utility allowances), continue with the following*

steps, by entering the applicable information into the yellow shaded fields on the following tabs:

4. **Summary tab,**
5. **Utility sampling tabs** (Electric – Family and Gas – Family or Electric – Elderly and Gas – Elderly) – Enter the utility sampling data received from the residents in the appropriate fields as necessary, and
6. **“MSHDA Cert” tab,** if applicable.

Summary Tab – For all developments with tenant paid utilities that are not attached to Project Based Vouchers, the utility tabs (Summary, Electric-Family, Electric-Elderly, Gas-Family, Gas-Elderly, and Certification) must be completed as part of the budget process. **Refer to the “451 – Utility Sampling and Rent Schedule Policy” for more information regarding the utility and rent schedule tabs.**

Instructions for Completing the 453A Tab

Budgets must be prepared by the management agent and submitted to the Authority on the customized MSHDA Mgmt. #453A form using the instructions outlined in this section. The appropriate tabs will appear in the workbook based on the development name selected on the summary tab.

453A Columns - Below is a description of the data in each column of the budget form:

20xx Budget – The previous year’s Authority approved Annual Operating Budget numbers should be entered into this column.

Previous 12-Months Expenditures – Enter the total accumulated Monthly Income and Expense (MIE) data from the previous year’s July MIE through the current year’s June MIE data submitted during the MIE process.

Proposed 20xx Budget – Enter in the development’s estimated total annual income and expenses for the upcoming budget year in each line item of this column.

Note: Use the previous 12-month’s amounts to estimate the upcoming calendar year’s income and expenses. Adjust your calculations for unusual income and expenditures incurred during the previous 12-months or anticipated for the upcoming budget year.

Adjustments by MSHDA - Leave this column blank. MSHDA staff record adjustments to budget items in this column.

MSHDA Approved Budget - Leave this column blank. MSHDA-approved budget amounts are calculated based on adjustment amounts entered and appear in this column.

Variances of Greater than 20% - This column calculates the percentage of variance between the “Proposed 20xx Budget” amount and the “Previous 12-Month Expenses”.

Variance = Proposed Budget minus Previous 12-Months Expenses divided by the Previous 12-Month's Expense amount.

Variances of Greater than \$2000 – This column calculates the dollar variance between the “Proposed 20xx Budget” and the “Previous 12-Month Expenses”. Variance = Proposed 20xx Budget minus Previous 12-Month Expenses.

Variance Requires Detail – This column calculates if the variance is greater than 20% AND \$2000. If the column displays a “YES” in the row, **the management agent must provide an explanation of the variance in the “Detailed Notes of the 453A Line Items” of the budget submission requirements.**

NOTE: Developments processed under the Authority's Threshold Requirements for Preservation of Section 8 Developments must follow the operating budget requirements established at closing.

453A Rows

Below is a description of each line item row on the 453A form. Remember to project the total annual income and expenses for all budget line items based on the previous 12-month's income and expenditures. Adjust each line item for any anticipated changes expected during the upcoming budget year and provide an explanation or support documentation when the changes to a line item are significant (greater than a 20% and \$2000 variance). Line items with a “**Budget Notes are required**” reference require a detailed explanation regardless of the significant change standard (20% or \$2,000).

Income Line Items

Income

1 Gross Rent Potential-GRP (including Project-based vouchers) – More is covered in the “Utility Sampling and Rent Schedule Policy” regarding this item. The rent schedule calculates the monthly and annual rent potential once all the development's units have been entered on the schedule. This line item equals the Grand Total Annual Rent Potential less the projected amount of rent revenue lost due to existing lease restrictions (lease variances). For example, rent increases effective after January 1st will not receive the maximum gross rent until the month the rent increase becomes effective for the unit.

Budget Notes are required – Include detailed calculations and documentation to support the rent potential amounts listed on the rent schedule and a unit by unit breakdown of the amount of lease variance. Do not include subsidy grants that support the operation of the development (e.g. development based subsidies).

1a Vacancy Loss – Project vacancy rates based on the previous 6 months and adjust for any projected increase or decrease during the budget year. Record rental income lost due to vacant units during the month.

- 1b **Bad Debt/Former Residents** – Project the rental income lost due to residents who have vacated units and owe money to the development in excess of security deposits as of the end of the reporting month based on the previous 12 month's average.
- 1c **Marketing Rent Concessions** - Project the amount based on the previous 12 month's data and adjust for any significant projected increase or decrease during the budget year. Provide documentation to support any adjustments to the previous 12-months amount. Record income lost due to any marketing rent concessions.

Total Deductions - The form auto-calculates this field.

Net Rent Collected (GRP minus Total Deductions) - The form auto-calculates this field.

Other Income

- 2a **Late Charges** - Multiply the late charge times the anticipated number of occurrences to project the amount for the budget year.
- 2b **Laundry & Carport Income** - Project the development's portion of income received from common area laundry facility and carport rentals.
- 2c **Commercial Income** – Project rent collected from commercial space covered by a master lease.
- 2d **Subsidies/Grants** – Project subsidy or grant funds received; i.e. CMH, Small Size Loans, Security Loans, HOME Loans, Amenity Loans, HODAG or subsidy grants that support the operation of the development (resident-based subsidies are included in Gross Rent Potential). **Note:** MSHDA development-based subsidies are not included in Gross Rent Potential and should be entered on this line item.
- 2e **Interest Income** - Project income derived from interest earned on savings deposits, investment certificates, security deposits (where applicable) and trustee-held escrow accounts (including Section 8 Preservation Pass-through developments). **Note:** Do **NOT** include a projection of interest to be earned on MSHDA-held reserves, e.g. Tax & Insurance Escrows, Replacement Reserve, DCE Interest, ORC, Operating Assurance Reserve, Operating Deficit, Miscellaneous Escrows, etc.
- 2f **Other** - Project miscellaneous income. For example, cable, club house rental, air conditioner unit rentals, Section 236 Interest Reduction Subsidy, non-refundable pet or other fees, human services programs, sales proceeds, income from non-ACC units, NSF fees and rent from telecommunications tenants. **Budget Notes are required.**

Total Other Income – The form auto-calculates this field.

- 3 **Total Income (Total Net Rent Collected plus Total Other Income)** - The form auto-calculates this field.

Expenditure Line Items

Expenditures

Management agents may use their discretion to classify and record expenses as either routine maintenance expenses (non-depreciable) or capital expenditures (depreciable). The method of depreciation and rationale for classifications must follow standard accounting principles and practices. **However, once an item is classified as either non-depreciable or depreciable, the item must continue to be reported with the same classification unless formally changed. Changing accounting methods and practices within an established fiscal period or periods is not allowed without formal declaration as required by IRS regulations.**

- Non-depreciable operating and maintenance items must be budgeted in Lines items 6e, 6f, and 6g of the budget.
- Depreciable items or capital expenditures must be budgeted in Line items FA1 through FA4 of the budget.
- The projected physical needs of the development including item, quantity, cost and anticipated escrow funding source must be detailed in the specific budget line items.
- Congregate care service expenditures cannot be budgeted.

Administration

- 4a **Management Fees** – If the development owner approves the fee on the Management Agreement or Addendum to Management Agreement, this item should always be budgeted as the management fee amount identified in the agreement. Calculate the fee by multiplying the total number of units in the development (including non-ACC and employee units) times the management fee set for the budget year. Refer to the MSHDA Mgmt. 450 - Attachment 2 for the maximum fees set for the budget year. The management fee cannot exceed the maximum amount. **Budget Notes are required.**
- 4b **Premium Management Fees (PMF)** – If the development owner approves the premium management fee on the Management Agreement/Addendum A of the Agreement, this item cannot exceed the maximum premium management fee. Calculated by multiplying the total number of units in the development (including non-ACC and employee units) times the maximum premium management fee set for the current calendar year. Refer to the MSHDA Mgmt. 450 Attachment 2 for the maximum fees set for the upcoming budget year.

This per unit fee is applied to the current calendar year's PMF being earned, which will be paid if approved in the upcoming budget year. For example, the PMF for 2011 was \$70, which was paid to the management company for PMF earned during 2010, but approved and paid during the 2011 budget/calendar year. **Budget Notes are required.**

- 4c **Marketing Payroll** - Project the reimbursement of gross salaries of staff used exclusively for marketing or commissions paid to outside agents.
- 4d **Administrative Payroll** – Project the reimbursement of gross salaries of all full and part-time office staff, including the human services coordinator. If a position is vacant, identify the vacant position in the budget notes. The notes should also list the employees' names, position description, hourly rate, number of hours, and the total salary including bonuses for each position/employee. **Budget Notes are required.**
- 4e **Employer Payroll Taxes** – Project the reimbursement of all employer payroll taxes (i.e. FICA, FUTA, and Unemployment Agency payments). Also include the taxes paid by the employer on behalf of marketing staff (4b), administrative staff (4c), maintenance staff (6a), janitorial staff (6b), and grounds maintenance staff (6c). The cost of an unemployment tax audit must be included in this line item. **Budget Notes are required.**
- 4f **Employee Benefits & Insurance** – Project the cost of the employer's contribution for Authority-approved pension plans for on-site staff, health care, life insurance, fidelity bond coverage when allowed under the Authority's Employee Dishonesty/Crime Policy, vehicle and any other Authority-approved insurance costs not currently being escrowed.
Budget Notes are required – Include:
- Evidence of Authority approved pension plan, if the Authority has not included the plan on the Authority's approved pension list (MSHDA Mgmt. 450 – attachment 1).
- 4g **Worker's Compensation** – Project Worker's Disability Compensation Insurance and the cost of the Worker's Compensation audit. The cost of the worker's compensation is determined by multiplying the percentage cost of worker's compensation (supplied by The Unemployment Agency) by the gross salary of each employee or employee group. This percentage varies depending on the job classification of the employee.
Budget Notes are required – Include:
- The worker's compensation cost calculation – This is calculated by multiplying the percentage cost of worker's compensation (supplied by The Unemployment Agency) by the gross salary of each employee or employee group. This percentage varies depending on the job classification of the employee.

- 4h **Advertising** - Project development advertising through newspapers, radio, television, exhibits, leaflets, brochures, signs, banners, etc. as well as advertising for staff vacancies.
- 4i **Legal Expense** - Project professional services relating to the development's operations; i.e., serving notices, bonding, eviction proceedings, real estate tax appeals, etc. Any court costs or legal fees paid by residents should be off-set in this line item. Do not include the cost of the Legal Opinion letter required for the Annual Certified Audit on this line item. Supportive documents should clearly establish the average number of cases expected during the forthcoming year. Exclude the cost of unusually high expenses associated with nonrecurring lawsuits experienced in the past.
Note: Any legal expenses incurred in the sale or the proposed sale of the development or the partnership interest cannot be paid from development operations.
- 4j **Office & Telephone** - Project the costs of office supplies and computer maintenance, non-capitalized office equipment, development specific computer software, local and long distance telephone charges, telephone equipment rental and internet charges. Pager and cellular services used by on-site staff are eligible expenses.
- 4k **Audit Fees** – Project the cost of preparing the annual certified audit. This item cannot exceed the maximum fee set for the budget year on developments with Section 236, Section 8, and Moderate Rehabilitation program funding. Any charge in excess of the maximum published rate is a cost to the owner of the development. Refer to the MSHDA Mgmt. 450 Attachment 2 for the budget year maximum fee amounts. The cost of the Annual Certified Audit's legal opinion letter must be included on this line item.
- 4l **Credit Reports** – Project the cost paid for resident credit reports, home visits and criminal checks. The management agent should evaluate the development's current waiting list and marketing conditions to determine the projected credit report expense.
- 4m **Human Services Program** - Project the cost of Human Services programs that directly benefit the residents. For example, holiday dinners, parties, teen activities, cable TV, toddler programs and recreation/entertainment-related activities.
- 4n **Miscellaneous** – Project the cost of newsletters, coffee, bank charges, approved seminars or training sessions for on-site employees, charitable contributions and other items provided to residents not included in human services. Also included are Tax Credit monitoring fee/inspection fees (which are not allowed at Section 8/236 developments) and mileage for on-site staff.

Total Administrative – The form auto-calculates this field.

Utilities

Line items 5a through 5c require an estimate of development utility expenses. Consider whether energy conservation measures will be undertaken in the upcoming budget year to reduce expenses; provide a detailed explanation on any conservation actions planned in the budget notes.

- 5a **Electricity** – Enter the development paid and common area electric utility costs based on the amount on the previous 12-month's electric costs. Provide an explanation for any variance from the 12-months expense amount.
- 5b **Water & Sewer** – Enter the development paid and common area water & sewer utility costs. Include any increase in the actual water and sewer for the previous 12-months by the local water department's projections for the upcoming budget year. If an irrigation system is being installed, account for the potential increase in water consumption.
- 5c **Fuel** – Enter the development paid and common area fuel utility costs based on the amount on the previous 12-month's fuel costs. Provide an explanation for any variance from the 12-months expense amount.

Total Utilities – The form auto-calculates this field.

Operating & Maintenance

- 6a **Maintenance Payroll** – Project the reimbursement of the gross salary of both full and part-time maintenance staff. For example, staff that maintains site mechanical equipment, pool attendants and staff that perform other maintenance-related work. If a position is vacant, identify the vacant position in the budget notes. The notes should also list the employees' names, position description, hourly rate, number of hours, and the total salary including bonuses for each position/employee.
- 6b **Janitorial Payroll** – Project the reimbursement of the gross salary of both full and part-time janitorial staff for both unit and common area cleaning.
- 6c **Grounds Maintenance Payroll** – Project the reimbursement of the gross salaries of both full and part-time grounds staff.
- 6d **Snow Removal** – Project snow removal contracts and/or supplies and non-capitalized equipment related to the removal of snow and ice.
- 6e **Lawn Maintenance** – Project lawn care contracts and/or supplies related to on-site lawn maintenance. For example, trees, fertilizer, weed killers, shrub and lawn trimming, and all other non-capitalized items related to grounds maintenance.

6f **Non-Capitalized Repairs & Maintenance** – Project the costs of non-capitalized expenses related to materials and purchased labor costs for the regular maintenance of the development’s assets. Major repairs to the property will be included under the Fixed Assets (FA1 through FA4) portion of the budget and MIE. The following are examples of expenditures to include as long as the expenditures are minor repairs to:

Building and components – such as decks, awnings, siding, roofs, doors, windows, storage sheds, lighting systems, security systems and equipment, etc.
Common areas – such as common area repairs, painting, renovation, cleaning, or replacement costs.

Electrical – such as electrical repairs, interior lighting replacements or repairs, electrical maintenance supplies, generator repairs, and any scheduled payments for calling in an electrician.

Elevators – such as elevator repairs, routine elevator maintenance supplies, and any scheduled payments for calling in an elevator repair person.

Exterior cycle painting/waterproofing – such as costs for exterior cycle painting and waterproofing and supplies.

Furniture and fixtures – such as appliances, floor coverings, tubs, sinks, cabinets, toilets, water heaters, window treatments, common area furniture and pictures, etc.

Heating and air conditioning – such as common area boiler inspections, replacements and repairs to heating/cooling systems, service contracts for heating and air conditioning equipment, etc.

Maintenance equipment – such as trucks, snow removal equipment, lawn mowers, power tools, etc.,

Office equipment – such as desks, files, computers, development-specific software, typewriters, copies, calculators, communication equipment, etc.

Parking lot and concrete – such as contracted cleaning, sealing and striping, sidewalk and road repairs, etc.

Pool - such as maintenance contracts for pool repairs, routine pool maintenance supplies and any scheduled payments for calling in a pool repair person.

Plumbing – such as routine plumbing maintenance supplies, replacements or repairs to plumbing, and any scheduled payments for calling in a plumber.

Include the cost of non-capitalized expenses related to the materials and purchased labor costs for the regular maintenance of the development’s rental units. Major repairs to units will be included under the Fixed Assets (FA1 through FA4) portion of the budget and MIE. The following are examples of expenditures to include as long as the expenditures are minor repairs to:

Electrical – such as electrical repairs, lighting replacements or repairs, electrical maintenance supplies, and any scheduled payments for calling in an electrician.

Furniture and fixtures – such as appliances, floor coverings, tubs, sinks, cabinets, toilets, water heaters, window treatments, etc.

Heating and air conditioning – such as replacements and repairs to heating/cooling systems, service contracts for heating and air conditioning equipment, etc.

Plumbing – such as routine plumbing maintenance supplies, replacements or repairs to plumbing, and any scheduled payments for calling in a plumber.

Unit turnover tasks - such as painting and wall papering vacant units, painting supplies, wallpapering and paint removal materials, cleaning vacant units, flooring replacement and repair, etc.

- 6g **Other** – Project **non-capitalized** costs not specifically identified on another line item. Offset the amount of damages collected from residents.

Total Operating & Maintenance – The form auto-calculates this field.

Other Expenses

- 7a **Property Taxes** – Leave this field blank. The forecasted taxes due amount must be entered on line E1-D Tax Escrow Deposit.

- 7b **Property & Liability Insurance** – Leave this field blank. The forecasted taxes due amount must be entered on line E2-D Tax Escrow Deposit.

- 7c **Mortgage Interest** - Use the mortgage amortization statement to determine the upcoming budget year's total interest expense. If the amortization statement is unavailable multiply the latest Monthly Statement of Activity interest amount by 12 to project the mortgage interest expense.

Budget Notes are required - If the development has other loan interest, project other interest expense and include the amount on this line item.

Total Other Expenses – The form auto-calculates this field.

- 8 **Total Expenditures** – The form auto-calculates this field.

- 9 **Income Minus Expenditures** – The form auto-calculates this field.

Escrow Activities

Project anticipated deposits and withdrawals from each of the development's escrow accounts for the upcoming budget year. When budgeting, assess the physical needs of the development to determine how major expenses and the required escrow deposits will be funded. Consider the latest annual physical inspection, Capital Needs Assessment (CNA) and the age and life expectancy of the development's buildings and components. Based on this assessment, determine which funding sources to use and how to balance the escrow funding with the operational needs of the development. ***Be aware that budget approval does not represent pre-approval of the use of escrow funds.***

- E1-D **Tax Escrow-Deposit** – Use the “Forecast Due” amount on the MSHDA tax analysis, unless the development successfully appeals the tax amount or obtains a

tax abatement. If the MSHDA projection is inaccurate, submit documentation from the tax assessor confirming the new amount with the budget package.

Use the “Forecast Due” amount on the MSHDA tax analysis for the PILOT amount unless proof can be provided that the PILOT projected for the next calendar year is different than the amount forecasted on the MSHDA tax analysis.

Budget Notes are required – If amount is different from the forecast, provide documentation from the tax assessor confirming a new tax escrow amount.

E2-D Insurance Escrow-Deposit – Use the “Forecast Due” amount on the MSHDA insurance analysis unless the development is “shopping” insurance companies to reduce the cost.

Budget Notes are required – If the MSHDA projection is inaccurate, submit a copy of the most current insurance bill and a copy of the cancelled check, if you already paid the bill.

Note: Property & Liability insurance premiums that are paid directly from the development’s operating account must be included in this line item for the monthly insurance escrow deposit. In order to receive reimbursement, management agents must provide applicable MSHDA Finance Division staff with copies of the most current insurance bill and a copy of the cancelled check as soon as the insurance premium has been paid.

E3-D Replacement Reserve-Deposit – Budget deposits according to the CNA completed by On-Site Insight, if applicable. If operations cannot support the CNA amount, at a very minimum for all developments, multiply the Gross Rent Potential (including rent contributions and subsidies) for the previous budget year by the replacement reserve factor, noted in the development’s regulatory agreement, carried out four decimal places. **Budget Notes are required.**

- If the development has a CNA-Plan 1 only, budget the amount shown as “Required Annual Contributions” for this budget year as noted in the CNA Plan 1.
- If the development has a CNA Plan 2, the amount budgeted will be the minimum of the “Required Annual Contributions” for this budget year as noted in the CNA Plan 2, and up to the amount of the “Cumulative RR Needs” amount as noted in the Replacement Reserve Analysis, which will be sent to the management agents under separate cover.
- If no CNA has been completed for a development, the amount on line 7c is designated by the development’s Regulatory Agreement. The annual ongoing funding is typically expressed as:
 - A percentage of last year’s approved Gross Rent Potential (GRP) identified in the Regulatory Agreement;
 - A flat dollar amount designated in the Regulatory Agreement;

- A percentage increase over the last year's annual deposit; or
- The greater of a stated percentage increase over last year's approved GRP or a stated percentage over last year's deposit.

E3-W **Replacement Reserve-Withdrawal** – If a CNA has been completed by On-Site Insight, use the CNA as a guide to project Replacement Reserve withdrawal for the upcoming budget year. **All items listed in the CNA can be budgeted from Replacement Reserve, unless the CNA indicates the item should be paid from operations.** If a CNA has not been completed, include the estimated Replacement Reserve funds that will be disbursed during the year based on the list of projected physical needs of the development. **Budget Notes are required.**

E4-W **ORC-Withdrawal** – Project the estimated Operating Reserve Cash Escrow funds that will be disbursed based on the operational needs of the development.

E5-W **Operating Deficits-Withdrawal** – Project the anticipated withdrawals for operating deficits for the upcoming budget year. Refer to the Operating Deficit Reserve (ODR) cash flow projection schedule for the annual planned deficit and anticipated ODR withdrawal.

E6-D **Other Escrows-Deposits** – Project the amount of deposits to any other MSHDA-held escrow accounts.

E6-W **Other Escrows-Withdrawal** – Project the amount of withdrawals to any other MSHDA-held escrow account.

Net Escrow Deposits & Withdrawals - The form auto-calculates this field.

Capital Expenditure Additions

Project the value of *capitalized* improvements directly related to all land improvements, major structural updates or repairs, new maintenance or office equipment, and/or furniture and fixtures. **Note: major structural repairs or additions require approval from MSHDA before work commences.**

FA1 **Land & Building Improvements** - Project the value of capitalized improvements directly related to:

Land improvements – such as *capitalized* sidewalks, roads, fences, landscaping shrubs and trees, lawn sprinkler system, playground equipment, etc.

Building & Components – such as *capitalized* decks, awnings, siding, roofs, doors, windows, storage sheds, lighting systems, heating/cooling systems, security systems and equipment, etc.

FA2 **Maintenance & Office Equipment** - Project the value of capitalized improvements directly related to:

Maintenance Equipment – such as *capitalized* trucks, snow removal equipment, lawn mowers, power tools, etc.

Office Equipment - such as *capitalized* desks, files, computers, development-specific computer software, typewriters, copiers, calculators, communication system equipment, etc.

- FA3 **Furniture and Fixtures** – Project the value of capitalized improvements directly related to appliances, floor covering, tubs, sinks, cabinets, toilets, air conditioning units, water heaters, window treatments, common area furniture and pictures, etc.
- FA4 **Other** - Project the value of capitalized improvements directly related to items not included in the above categories, for example, service vans, etc.

Deduct Total Fixed Asset Additions – The form auto-calculates this field

Financing Activities

- F1 **Mortgage Principal Payments** – Use the mortgage amortization statement to determine the upcoming budget year’s total principal paid. If the amortization statement is unavailable multiply the latest Monthly Statement of Activity principal amount by 12 to project the mortgage principal balance paid for the budget year.
- F2 **Contributions/Advances** – Project any related party/affiliate contribution/owner money advanced to the development to fund operating deficits or to support operating needs –AND – and any anticipated repayments. Repayments are to be entered as a negative number. **Note: Include detailed descriptions of the contributions/advances and the anticipated repayment schedule in the budget notes.**
- F3 **Allowable Distributions** – Project the limited dividend payment pursuant to the Regulatory Agreement. If not budgeted limited dividend payments may be paid, if the terms and conditions of the Regulatory Agreement are met. **Budget Notes are required.**
The following additional items should be considered when budgeting allowable distributions:
- Do **NOT** budget more than one year’s annual L.D. amount.
 - Do **NOT** include the HOME loan portion of the distribution. (HOME loan portions of distribution are reported on F7).
 - Do **NOT** budget L.D. payments when a small size/security loan is budgeted.
 - Most Section 236 and some Section 8 have limitations on the amount of the annual L.D. payment that can be budgeted. Where a limitation exists and the owner budgets the full annual L.D. payment, they must budget DCE Interest to cover the difference between the limited and the full L.D. amount.
 - The 70/30 program requires that the mortgagor expend \$1 of development income to provide new services, training or rental assistance for very low income households for every \$3 of approved L.D. payment.
- F4 **Other Loan Payments** – Project the repayment of loans from all reserve

accounts, repayable energy loans, Second/Third mortgage payments, etc. **Note: Resale proceeds to repay the Replacement Reserve must be budgeted in this item.**

Deduct Financing Activities – The form auto-calculates this field.

Net Surplus or Deficit Budget - The form auto-calculates this field.

Instructions for Completing the Identity of Interest Tab

IOI tab – Answer the question, “Does an Identity of Interest relationship exist at the above development?”

- If ‘No’, the tab refreshes to display the Identity of Interest Certification (MSHDA Mgmt 450C). Complete the signature block fields, then print and sign the form.
- If ‘Yes’, the tab refreshes to request the number of identity of interest vendors and a list of the vendor names. Enter each identity of interest vendor name in order to create a separate identity of interest disclosure.

IOI-1 through IOI-10 tabs – Depending on the number of identity of interest vendors entered on the IoI tab, the template will create the necessary number of IoI-[#] tabs to generate individual identity of interest vendor approval request forms. For each request form complete the following fields:

Federal ID# - Enter the federal employer identification number in this field.

Contact Name – Enter the vendor’s primary contact person.

Street Address – Enter the street number, name, suite, etc where the vendor’s main office is located.

City – Enter the city where the vendor’s main office is located.

State – Enter the state where the vendor’s main office is located.

Zip – Enter the zip code where the vendor’s main office is located.

Owner’s Name (printed) – Enter each owner’s name

Type of Ownership – Enter the ownership interest each person has in the company. For example, sole proprietor, general partner, limited partner, etc.

List of Current Officers Names – Enter the names of the current company officers.

Titles – These are pre-entered, but may be changed if the officers have different titles.

Description of Goods\Services Provided – Enter a detailed description of the goods and services planned to be provided by the company to the development.

Contract Effective Date – Enter the date, which the contract is intended to start.

Contract End Date – Enter the anticipated date the contract will expire. Contracts can last up to a maximum of four years.

MIE Line Item – Enter a list of the Monthly Income and Expense (MIE) line items where the contracted goods and services will be expensed.

Units/ # of Occurrences – Enter the anticipated number of times the product or service will be used, if applicable.

Cost per unit/ occurrence – Enter the individual cost for each use of the product or service, if applicable.

Total Cost by Unit/ Occurrence – This field calculates the number of units/occurrence multiplied by the cost per unit/occurrence for each MIE line item.

Set Cost of Contract – Enter the total contract amount for the specified MIE line item, if the per cost or per occurrence breakdown of the expense is not applicable.

Total Cost – This field sums the Total Cost by Unit/Occurrence amount with the Set Cost of Contract amount.

Total Contract Amount – This field sums the total cost of all the MIE line items broke down in the above grid.

Bookkeeper's and Accountants –

Names – Enter the name of each bookkeeper and accountant that works for the vendor.

Address – Enter the primary work address where the bookkeeper or accountant works.

Certification of No Cost – If the identity of interest vendor provides its services at no cost to the development, have the vendor representative sign this section as certification. This allows the Identity of Interest Disclosure to be submitted with out bids.

Review the certification of the identity of interest rules and complete the signature block fields, then print and sign the form.

Forms and Attachments

453A – CSH - Budget Form

Forms and Policy Referenced

Utility Sampling and Rent Schedule Policy and related forms

450B – Identity of Interest Disclosure

450C – Identity of Interest Certification

Attachments Referenced

450 Attachment 1 – List of Management Agents with MSHDA-Approved Pension Plans

450 Attachment 2 – Annual Fees and Interest

450 Attachment 3 – Identity of Interest Rule